

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 IO-10 FTC-01 NEA-09 XMB-04 OPIC-06

AGR-10 CEA-01 CIAE-00 COME-00 DODE-00 EB-07 FRB-01

H-02 INR-07 INT-05 L-02 LAB-04 NSAE-00 NSC-05 PA-02

AID-05 CIEP-02 SS-15 STR-04 TAR-01 TRSE-00 USIA-15

PRS-01 SP-02 FEAE-00 OMB-01 /135 W

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R 161200Z MAY 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 6464

UNCLAS SECTION 1 OF 2 OTTAWA 1843

EO 11652 NA

TAGS EINV XG JA AS

SUBJ FOREIGN INVESTMENT STUDY ACT OF 1974

REFS A) STATE 107242 B) STATE 108749

1. EMBASSY WILL BE PLEASED TO PROVIDE ANY INFORMATION ON CANADIAN INVESTMENT SITUATION NOT COVERED BY PREVIOUS REPORTING AND NOT CONTAINED EUR/CAN FILES. CANADIAN ATTITUDES AND LEGISLATION DEALING WITH FOREIGN INVESTMENT HAVE EVOLVED OVER PERIOD OF YEARS, AND SOME ASPECTS OF GOC POLICY ON INVESTMENT ARE NOT YET FULLY IMPLEMENTED (E.G., SECOND PHASE OF FOREIGN INVESTMENT REVIEW ACT NOT PROMULGAGED) AND SOME TRENDS ONLY PARTIALLY DISCERNIBLE (E.G. NEW LAWS AND REGULATIONS COVERING PUBLICATIONS, BROADCASTS, FILMS AND OTHER "CULTURAL" ACTIVITIES NOW SURFACING).

2. BROAD OUTLINE OF GOC POLICY TOWARD FOREIGN INVESTMENT CONTAINED IN FOREIGN INVESTMENT REVIEW ACT OF DECEMBER 13, 1973, WHICH PROVIDES FOR GOC SCREENING OF TAKEOVERS OF CANADIAN FIRMS BY FOREIGNERS, OF EXPANSION OF FOREIGN-CONTROLLED BUSINESSES INTO NEW AREAS OF ACTIVITY, AND UNCLASSIFIED

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OF NEW FOREIGN INVESTMENT. LATTER TWO FEATURES OF LAW

NOT YET OPERATIVE, BUT FIRST PHASE NOW IN OPERATION FOR ABOUT ONE YEAR. BASIC CRITERIA FOR ALLOWANCE OF TAKE-OVER PROPOSAL IS "SIGNIFICANT BENEFIT TO CANADA", WHICH HAS BEEN SPELLED OUT IN SOME INSTANCES OF ACCEPTANCE OF PROPOSALS BUT NEVER IN REJECTION OF OTHERS. (SEE OTTAWA A-226 OF APRIL 15 FOR LATEST GUIDELINES ISSUED BY FOREIGN INVESTMENT REVIEW AGENCY.)

3. AS REQUESTED IN PARA. 2, REFTEL B, FOLLOWING INFO IS SUPPLIED FOR POINTS H, I, AND J, PARAGRAPHS 5 AND 6 REFTEL A:

H. 1) FOR NEW INVESTMENT, GUIDELINES HAVE NOT REPEAT NOT BEEN PUBLISHED BY FIRA. EMBASSY WILL TRANSMIT WHEN AVAILABLE.

2) FINANCIAL STATEMENTS REQUIRED UNDER INCOME TAX ACT ARE USED IN PREPARATION OF ANNUAL REPORT OF MINISTER OF INDUSTRY, TRADE AND COMMERCE UNDER CORPORATION AND LABOR UNIONS RETURN ACT (COPIES OF LATEST REPORT FOR 1972 SENT ON CERP, MARCH 21, 1975). THIS REPORT IS EVALUATION OF "EXTENT AND EFFECTS OF NON-RESIDENT OWNERSHIP AND CONTROL OF CORPORATIONS IN CANADA".

3) ACCORDING TO LATEST CALURA REPORT, "CORPORATION RETURNS ARE DIVIDED INTO CONFIDENTIAL AND NON-CONFIDENTIAL SECTIONS. THE NON-CONFIDENTIAL SECTION OF THE RETURN INCLUDES INFORMATION ON THE CORPORATION, OFFICERS AND DIRECTORS, AND OWNERSHIP OF THE CORPORATION'S ISSUED SHARE CAPITAL. THE CONFIDENTIAL SECTION OF THE RETURN INCLUDES FINANCIAL STATEMENT OF THE CORPORATION AND A SCHEDULE OF SELECTED PAYMENTS TO NON-RESIDENTS FOR DIVIDENDS, INTEREST AND CERTAIN BUSINESS SERVICES." WHEN STATISTICS CANADA PUBLISHES CALURA REPORT, GENERALLY WITH TWO-YEAR LAG, NO INDIVIDUAL CORPORATIONS ARE NAMED, AND ALL DATA ARE COMPOSITE FIGURES.

4) EMBASSY POUCHING PERTINENT NARRATIVE SECTIONS OF CALURA REPORT TO EUR/CAN.

5) BALANCE OF PAYMENTS DIVISION OF STATISTICS CANADA PUBLISHES SERIES OF REPORTS ON FOREIGN INVESTMENT, UNCLASSIFIED

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OF WHICH LATEST BREAKDOWN BY FOREIGN COUNTRIES WAS "FOREIGN DIRECT INVESTMENT IN CANADA, 1971", RELEASED JANUARY 9, 1975. SERIES ARE BASED ON QUESTIONNAIRES, AUTHORIZED BY STATISTICS ACT, WHICH STATCAN SENDS TO BUSINESSES IN CANADA. (STATCAN OFFICIAL HAS PROMISED TO SUPPLY EMBASSY WITH COPIES OF QUESTIONNAIRES WHICH WILL BE POUCHED TO EUR/CAN.) STATCAN OFFICIALS TAKE OATH OF SECRECY TO PROTECT

INDIVIDUAL COMPANY DATA, AND PUBLISHED REPORTS ARE
IN COLLATED FORM.

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 6468

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6) FIRA KEEPS CONFIDENTIAL ALL INDIVIDUAL COMPANY
DATA SUBMITTED TO IT ON TAKEOVER BIDS, AND DESPITE
PRESS AND PARLIAMENTARY CRITICISM FOR SECRECY (SEE
OTTAWA A-255 OF APR. 25) REFUSES TO DIVULGE
PARTICULARS ON REJECTIONS OF TAKEOVER APPLICATIONS.
FIRA COMMISSIONER MURRAY HAS STATED REPEATEDLY
THAT DISCLOSURE OF COMPANY PLANS WOULD BE "UNFAIR
COMPETITION". WHEN SECOND PHASE OF ACT IMPLEMENTED,
THIS PRACTICE WILL LIKELY CONTINUE.

7) FOREIGN INVESTMENT COMPANIES ARE LARGELY
GOVERNED BY PROVINCIAL LAW AND, IF BROKERAGE HOUSES,
BY PROVINCIAL SECURITIES COMMISSIONS. ON FEDERAL
LEVEL, FOREIGN "NEAR-BANKS" (ONLY FEDERALLY CHARTERED
BANKS CAN CALL THEMSELVES BANKS BUT THERE ARE NOW
IN CANADA OVER 100 FOREIGN-CONTROLLED FINANCIAL
INSTITUTIONS ENGAGED IN LENDING, LEASING, AND
FACTORING OPERATIONS) VOLUNTARILY REPORT FINANCIAL
OPERATIONS TO BANK OF CANADA ON MONTHLY BASIS. THIS
INFORMATION NOT MADE PUBLIC.

I. 1) THERE HAVE BEEN FEW OFFICIAL STATEMENTS RE
DIRECT INVESTMENT IN CANADA BY OPEC COUNTRIES.
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(TAKEOVER OF EXISTING FIRMS WOULD FALL UNDER FIRA
JURISDICTION, AND EMBASSY IS UNAWARE OF ANY PROPOSAL
FROM OPEC COUNTRY BEING ALLOWED OR REJECTED.) MINFIN
TURNER, IN JANUARY, TOLD BUSINESS GROUP MEETING IN
MONTREAL THAT ARAB INVESTMENT MONEY IS WELCOME,
ESPECIALLY IF IT IS IN FORM OF DEBT CAPITAL AND IF
IT GOES TO PROVINCIAL GOVERNMENTS AND PRIVATE SECTOR.
HOWEVER, AT THAT TIME HE SAID ARAB CAPITAL SHOULD NOT
EXCEED EXPECTED CURRENT ACCOUNT DEFICIT OF ABOUT
C\$4 BILLION FOR 1975 SINCE MORE ARAB CAPITAL WOULD
RAISE EXCHANGE VALUE OF CANADIAN DOLLAR AND HURT
CANADIAN EXPORTS. SPEAKING TO TORONTO CANADIAN CLUB
LATER THAT MONTH, TURNER REFERRED TO INTERNATIONAL
EFFORTS TO RECYCLE FUNDS FROM OPEC COUNTRIES BUT
DID NOT SUGGEST THAT CANADA ATTEMPT TO ATTRACT DIRECT
INVESTMENT FROM THESE COUNTRIES. WHEN HE RETURNED IN
APRIL FROM 17-DAY TRIP TO MIDDLE EAST, TURNER TOLD
PRESS THAT COUNTRIES HE VISITED WERE MORE INTERESTED
IN SHORT AND MEDIUM TERM PORTFOLIO INVESTMENT IN
CANADA THAN IN DIRECT INVESTMENT. ACCORDING TO
GLOBE AND MAIL OF APRIL 6, TURNER STATED HE HAD NO
OBJECTION TO ARAB INVESTMENT IN MORTGAGES AND REAL
ESTATE IN CANADA, BUT WOULD DISCOURAGE SUCH INVESTMENT
IN CORES OF MAJOR CITIES. HE SAID HE DISCUSSED FIRA
WITH GOVERNMENT LEADERS IN SAUDI ARABIA, IRAN, KUWAIT
AND ALGERIA, BUT THEY WERE MORE INTERESTED IN CANADA'S
TAX LAWS (PRESUMABLY 15 PERCENT WITHHOLDING TAX ON
DIVIDENDS) THAN IN OBTAINING CONTROL OF CANADIAN FIRMS.

2) LATEST STATCAN FIGURES FOR DIRECT FOREIGN
INVESTMENT IN CANADA FOR 1971 DO NOT SHOW ANY
OPEC COUNTRY WITH SIGNIFICANT FIGURES (VENEZUELA
IS LISTED FOR C\$3 MILLION AND "OTHER ASIAN
COUNTRIES" AT C\$10 MILLION.)

3) FINANCIAL REPORTERS ATTEMPTING TO TRACK DOWN
RUMORED ARAB INVESTMENT IN CANADA HAVE COME UP
WITH VERY LITTLE HARD INFORMATION. ONE REPORT IN
OTTAWA CITIZEN OF FEB. 17 QUOTED DR. BEN GESTRIN,
BANK OF COMMERCE VICE PRESIDENT, AS SAYING:
"THERE'S NOT MUCH DIRECT ARAB INVESTMENT IN CANADA
AND IT WILL BE SOME TIME BEFORE IT COMES". ARTICLE
POINTED OUT THAT B.C. HYDRO HAS PLACED TWO C\$100
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MILLION BOND ISSUES WITH UNNAMED ARAB COUNTRY AND SIMILAR AMOUNT PLACED BY QUEBEC GOVERNMENT ALSO WITH UNNAMED COUNTRY. ARTICLE ALSO QUOTED TORONTO REAL ESTATE DEALER AS CLAIMING ARABS HAVE INVESTED ABOUT C\$1 BILLION IN MONTREAL REAL ESTATE.

4) STATCAN IS ATTEMPTING TO REFINE ITS CAPITAL FLOW ACCOUNTING METHODS IN ORDER TO EXPAND ITS REPORTING ON COUNTRY OF ORIGIN CAPITAL MOVEMENT. AT PRESENT ONLY U.S. FIGURES ON DIRECT INVESTMENT IN CANADA ARE BROKEN OUT IN STATCAN'S QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS.

J. 1) NO CHANGES EXPECTED IN CANADIAN DIRECT INVESTMENT POLICY AS RESULT OF OPEC COUNTRY EFFORTS TO INVEST HERE. WHEN SECOND PHASE OF FIRA PROMULGATED, ALL NEW INVESTMENT WILL BE SCREENED BY GOC. (GOC HAS REPEATEDLY STATED THAT FIRA EXAMINES PROPOSALS ON THEIR MERITS AND DOES NOT DISCRIMINATE ON BASIS OF NATIONALITY OF INVESTOR.) SOME PROVINCIAL GOVERNMENTS MAY MOVE ON LAND ACQUISITION BY FOREIGNERS IF OPEC MONEY BEGINS TO SURFACE IN EXTENSIVE LAND DEALS, PARTICULARLY FOR FARM OR RECREATION LAND. SOME PROVINCES HAVE ALREADY INSTITUTED RESTRICTIONS ON LAND OWNERSHIP (SEE OTTAWA A-265 OF APR. 30), AND OTHERS MAY FOLLOW. HOWEVER, DISCUSSIONSON FOREIGN LAND OWNERSHIP GENERALLY FOCUS ON DEGREE OF U.S. CONTROL, ALTHOUGH PRESS REPORTS OF MAY 14 HAVE NATIONAL CAPITAL COMMISSION CHAIRMAN GALLANT "VERY ALARMED" OVER WEST GERMAN PURCHASES OF "SUBSTANTIAL AMOUNT OF LAND" IN NATIONAL CAPITAL REGION.
PORTER

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